

## Message Text

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ACTION EB-07

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FM AMCONSUL DURBAN

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AMEMBASSY LONDON

INFO AMEMBASSY PRETORIA

AMCONSUL JOHANNESBURG

AMCONSUL CAPE TOWN

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EO 11652: NA

TAGS: EPAP, EAGR, SF

SUBJ: SOUTH AFRICAN VIEW ON LATEST US SUGAR PROPOSALS

1. AT THE ANNUAL GENERAL MEETING OF THE SOUTH AFRICAN SUGAR ASSOCIATION (SASA), A CONGEN OFFICER HAD AN OPPORTUNITY TO DISCUSS UPCOMING SUGAR TALKS WITH TWO SENIOR SASA OFFICIALS WHO ALSO ARE THE DE FACTO HEADS OF THE S.A. DELEGATION TO THE SUGAR TALKS, ANSON LLOYD AND PETER CHANCE. THEY HAD ALREADY RECEIVED A REPORT ON OUR PROPOSALS FROM BARNES IN LONDON AND HAD PREPARED WHAT LLOYD CHARACTERIZED AS A BUSINESSLIKE REPLY. WHILE THIS REPLY MUST FIRST BE DISCUSSED WITH AND APPROVED BY THE SASA BOARD OF DIRECTORS, LLOYD SUMMARIZED IT FOR US AND ASKED THAT THE GIST OF IT BE PASSED TO THE US DELEGATION. AS LLOYD EXPLAINED IT, SASA FINDS OUR NEW STOCKING PROPOSALS A "STEP IN THE RIGHT DIRECTION" AND MAINTAINS THAT, FOR SOUTH AFRICA, HE BELIEVES THAT THE STORAGE AND VERIFICATION PROBLEMS WHICH STOCKING ENTAIL ARE SOLUBLE. HE EXPECTS, HOWEVER, THAT OUR PROPOSALS WILL NOT RESOLVE THE PROBLEMS OF THE LESS DEVELOPED PRODUCERS AND STATED THAT WE STILL HAVEN'T

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FOUND A SOLUTION TO THE PROBLEM OF VERIFICATION OF CUBAN STOCKS. HOWEVER, HE SAID THE PRINCIPAL THRUST OF HIS STATEMENT WILL BE TO URGE THAT MORE TIME AND THOUGHT BE DEVOTED TO THE PRICING PROBLEM AND RELATIVELY LESS BE SPENT ON STOCKS. SASA MAINTAINS THAT THE FLOOR PRICE IS THE CRITICAL ISSUE AND THAT, UNTIL THAT IS SETTLED TO THE MAJORITY'S SATISFACTION, THERE IS SCANT LIKELIHOOD OF

PROGRESS ON STOCKS. LLOYD ARGUES THAT THE SASA CANNOT AGREE ON A STOCKING LEVEL, WHICH WILL INEVITABLY RESULT IN A 10-20 PERCENT REDUCTION IN THEIR EXPORTS, UNTIL THEY HAVE AN IDEA OF THE FLOOR PRICE. HE SAID THAT FOR SA, A FLOOR PRICE OF 12.7 CENTS PER POUND IN THE 1978-79 YEAR AND 13.1 CENTS IN 1978-80 IS THE MINIMUM THEY BELIEVE TO BE EQUITABLE AND FOR WHICH THEY WILL WORK. WHEN ASKED IF HE THOUGHT AN AGREEMENT WAS POSSIBLE, HE HEDGED BUT OPINED THAT THE DIFFICULTIES WITH THE USSR AND CUBA MADE A SUCCESSFUL OUTCOME LESS LIKELY.

2. AT THE SASA MEETING, IT WAS ANNOUNCED THAT THE SASA HAD ARRANGED FUTURES CONTRACTS FOR THE BULK OF THIS YEARS PRODUCTION AT A RATE OF L140 PER TON, WELL ABOVE THE CURRENT PRICE OF LESS THAN L100 PER TON, THOUGH STILL BELOW THEIR CLAIMED COST OF PRODUCTION OF ABOUT L170 PER TON. WHILE THIS INSULATES THEM FROM THE CURRENT MARKET, IT ALSO WILL CAUSE THE DEPLETION OF THE MAJORITY OF SASA'S STABILIZATION FUND THAT HAD BEEN BUILT UP TO OVER \$60 MILLION DURING THE DAYS OF L600 PER TON SUGAR IN 1974M WE SUSPECT THAT THIS WILL ENHANCE SASA'S DESIRE TO REACH AN AGREEMENT BY NEXT YEAR, SINCE THEY NO LONGER HAVE A SAFETY NET TO COMPENSATE FOR ANOTHER POOR EARNINGS YEAR.

3. FYI: LLOYD AND CHANCE BOTH COMMENTED ON THE UNEXPECTEDLY FRIENDLY RECEPTION THAT THEY RECEIVED AT THE GENEVA MEETING. AS SOUTH AFRICANS THEY CAME PREPARED FOR THE WORST AND PLANNED TO MAINTAIN A LOW PROFILE TO AVOID CALLING ATTENTION TO LIMITED OFFICIAL USE

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THEMSELVES. GRADUALLY THEY REALIZED THAT, AS INDUSTRY REPRESENTATIVES RATHER THAN SAG OFFICIALS, THEY WERE WELCOME THROUGHOUT THE CONFERENCE AND COULD EVEN ESTABLISH CLOSE WORKING RELATIONSHIPS WITH THE CUBANS AND THE SOVIETS. THEY ALSO SUSPECT THAT THEIR STATUS WAS ENHANCED BY THE GENERAL UNDERSTANDING THAT THEY, AS INDUSTRY REPS, WERE EMPOWERED TO NEGOTIATE AND TAKE FINAL DECISIONS BINDING ON THE SAG AND THE LOCAL INDUSTRY. FARBER

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